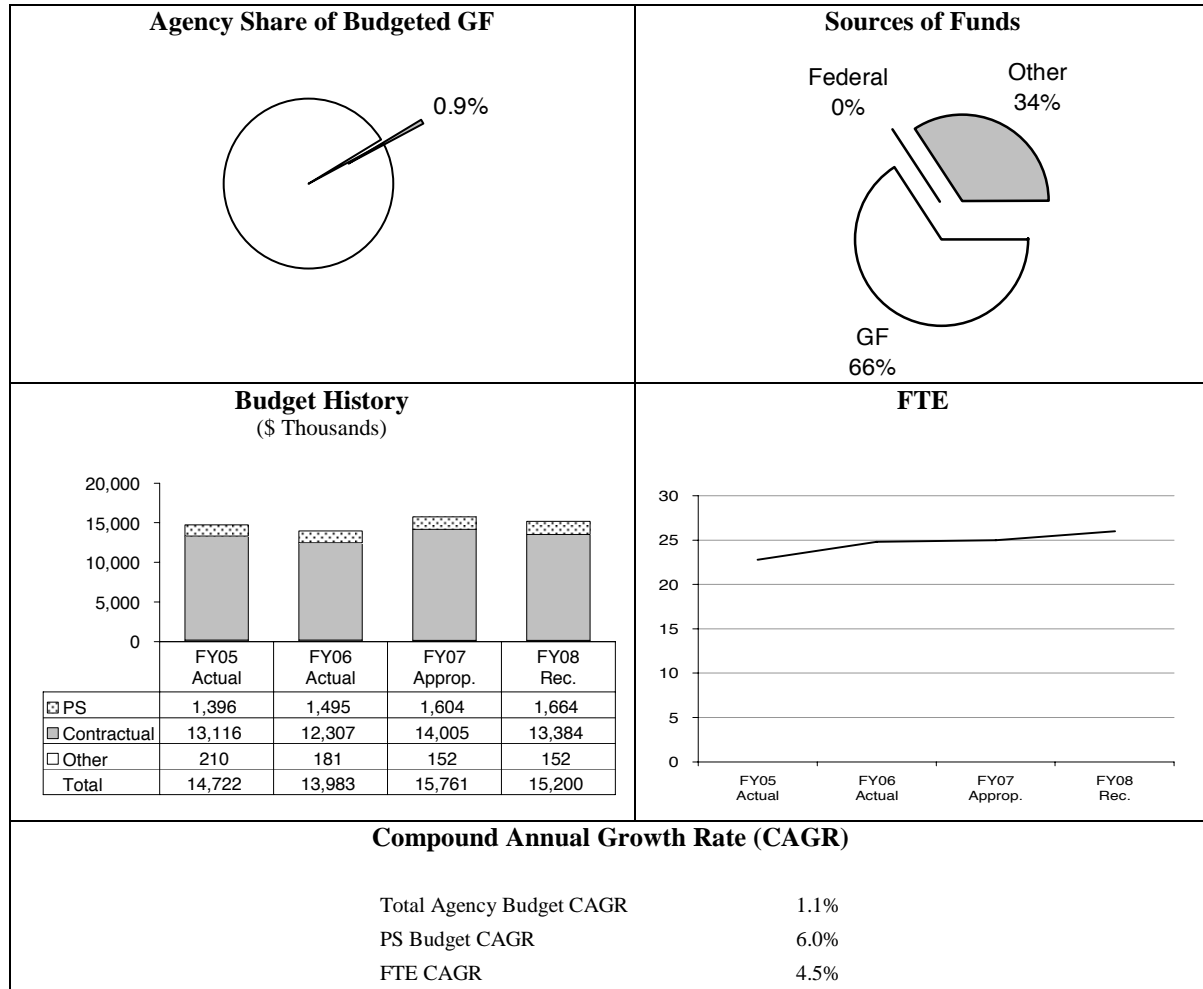


# FY2008 Budget Briefing

## Bureau of Finance and Management



### Key Responsibilities

- To promote efficient and effective management of the state of South Dakota;
- To advise the Governor on the overall fiscal policy;
- To complete and present the annual fiscal plan;
- To ensure that the directives of the Governor and Legislature are fulfilled; and
- To manage the central accounting and payroll systems.

### Key Personnel

- Commissioner Jason Dilges
- Finance Officer, Jim Neiles

## Department Total

The Bureau of Finance and Management's budget is funded with general funds and with user fees from state agencies. For FY08, the Governor recommends a decrease of \$601,852 from the general fund. A reduction of a similar amount was made in the prior budget year as well, due to an adjustment in the annual sale/leaseback payment.

	Actual FY06	Budgeted FY07	Agency Req. FY08	Gov Rec. FY08	Inc/Dec FY08	% Change From FY07
Personal Services	1,495,157	1,604,406	1,604,406	1,664,030	59,624	3.7%
Travel	25,986	28,051	28,051	28,051	-	0.0%
Contractual Services	12,307,213	14,004,687	13,379,337	13,384,199	(620,488)	(4.4%)
Supplies & Materials	90,862	113,460	113,460	113,460	-	0.0%
Grants And Subsidies					-	0.0%
Capital Outlay	63,892	10,335	10,335	10,335	-	0.0%
Other	2	0	0	0	-	0.0%
<b>Total</b>	<b>13,983,112</b>	<b>15,760,939</b>	<b>15,135,589</b>	<b>15,200,075</b>	<b>(560,864)</b>	<b>(3.6%)</b>
<b>Funding Types</b>						
General	11,209,789	10,610,100	9,984,750	10,008,248	(601,852)	(5.7%)
Federal	0	0	0	0	-	0.0%
Other	2,773,323	5,150,839	5,150,839	5,191,827	40,988	0.8%
<b>Total</b>	<b>13,983,112</b>	<b>15,760,939</b>	<b>15,135,589</b>	<b>15,200,075</b>	<b>(560,864)</b>	<b>(3.6%)</b>
FTE	24.8	25.0	26.0	26.0	1.0	4.0%

The Governor's recommendation throughout this analysis also includes funding for Performance and Compensation Equity (PACE) movement of 2.5% for those employees who are paid under the job-worth of their pay range, a 3% across-the-board increase for all permanent employees, and an increase in the employer paid portion of the state health insurance plan. The recommended amounts for each segment of the compensation package are as follows:

	General Funds	Federal Funds	Other Funds	Total
2.5% PACE Movement	3,624	0	6,351	9,975
3% Across-the-Board	15,979	0	28,096	44,075
Health Insurance	2,053	0	3,521	5,574
<b>Total</b>	<b>21,656</b>	<b>-</b>	<b>37,968</b>	<b>59,624</b>

## Major Expansion and Reduction as Recommended by the Governor

Budget Item	Agency Request			Governor's Recommendation		
	General Fund	All Funds	FTE	General Fund	All Funds	FTE
A. Sale Leaseback	(625,350)	(625,350)	0.0	(625,350)	(625,350)	0.0
B. Governor's Salary Policy				21,656	59,624	0.0
C. FTE Addition	-	-	0.0	-	-	0.0
Financial Operations Division			1.0	-	-	1.0
D. M&R Recalculation				1,842	4,862	0.0
Total	(625,350)	(625,350)	1.0	(601,852)	(560,864)	1.0

A. General funds are provided for the payment of the sale/leaseback. The original closing date was December 18, 1986, and the final payment date will be December 1, 2016. The funds budgeted are receipted and paid out the same day. There is no impact to the general fund.

The reduction is based on the payment schedule provided by the South Dakota Building Authority, requested by the agency, and recommended by the Governor.

B. Governor's Salary Policy: 3% COLA; 2.5% movement to midpoint; and 6.5% increase for employee health insurance.

C. The agency requests an additional FTE in the Financial Operations division to help state offices comply with Government Accounting and Standards Board (GASB) using computer automation. Last year, the agency moved an FTE from this division to the budget analysis division to address an audit finding related to bank statement reconciliation. The agency did not request funding for this FTE.

D. The Governor recommends an increase of \$1,842 in general funds and \$3,020 in other fund expenditure authority to account for a recalculation in the method of recovering maintenance and repair for the Capitol Complex.

## **Division of Finance and Management**

The mission of the Division of Finance and Management is to manage and coordinate the statutory functions of the Bureau of Finance and Management as they relate to serving as a liaison with the public and other governmental agencies of executive branch fiscal policy.

The agency requested no change, however, the Governor recommends an increase of \$1,842 in general funds and \$3,020 in other fund expenditure authority, in addition to the salary policy.

	<b>Actual FY06</b>	<b>Budgeted FY07</b>	<b>Agency Req. FY08</b>	<b>Gov Rec. FY08</b>	<b>Inc/Dec FY08</b>	<b>% Change From FY07</b>
Personal Services	1,495,157	1,604,406	1,604,406	1,664,030	59,624	3.7%
Travel	25,986	28,051	28,051	28,051	-	0.0%
Contractual Services	1,900,567	2,507,945	2,507,945	2,512,807	4,862	0.2%
Supplies & Materials	90,862	113,460	113,460	113,460	-	0.0%
Grants And Subsidies	0	0	0	0	-	0.0%
Capital Outlay	63,892	10,335	10,335	10,335	-	0.0%
Other	2	0	0	0	-	0.0%
<b>Total</b>	<b>3,576,466</b>	<b>4,264,197</b>	<b>4,264,197</b>	<b>4,328,683</b>	<b>64,486</b>	<b>1.5%</b>
<b>Funding Types</b>						
General	803,143	830,722	830,722	854,220	23,498	2.8%
Federal	0	0	0	0	-	0.0%
Other	2,773,323	3,433,475	3,433,475	3,474,463	40,988	1.2%
<b>Total</b>	<b>3,576,466</b>	<b>4,264,197</b>	<b>4,264,197</b>	<b>4,328,683</b>	<b>64,486</b>	<b>1.5%</b>
FTE	24.8	25.0	26.0	26.0	1.0	4.0%

## **Revenues**

	<b>FY06</b>			<b>FY07</b>			<b>FY08</b>
	<b>Original Estimate</b>	<b>Actual</b>	<b>Difference Over (Under) Estm.</b>	<b>Original Estimate</b>	<b>Revised Estimate</b>	<b>Difference in Estimate</b>	<b>Estimate</b>
Budget Book Sales (Gen Fund)	140	75	(65)	100	75	(25)	75
<b>Total</b>	<b>140</b>	<b>75</b>	<b>(65)</b>	<b>100</b>	<b>75</b>	<b>(25)</b>	<b>75</b>

## **Budget Notes**

- The Governor recommends an increase of \$1,842 in general funds and \$3,020 in other fund expenditure authority to account for a recalculation in the method of recovering maintenance and repair for the Capitol Complex.

**Selected Statistical Data**

	FY06			FY07			FY08
	Original Estimate	Actual	Difference Over (Under) Estm.	Original Estimate	Revised Estimate	Difference in Estimate	Estimate
Billing Vouchers Processed	22,000	18,655	(3,345)	20,000	20,000	0	20,000
Expense Vouchers Processed > \$500	10,000	8,305	(1,695)	8,500	8,500	0	8,500
Receipts Processed (CRT's)	250	164	(86)	200	175	(25)	175
Accrual Financial Statements	21	27	6	26	27	1	27
Journal Vouchers Submitted	450	575	125	600	600	0	600
Rule and Regulation Fiscal Notes	100	77	(23)	100	100	0	100
Transfer Requests	70	55	(15)	70	60	(10)	60
Contract Carryover Requests	30	44	14	30	45	15	45

## Sale/Leaseback – BFM

The mission of this program is to make payments on the lease entered into between the former Board of Charities and Corrections and the South Dakota Building Authority dated December 1, 1986.

	Actual FY06	Budgeted FY07	Agency Req. FY08	Gov Rec. FY08	Inc/Dec FY08	% Change From FY07
Contractual Services	10,406,646	9,779,378	9,154,028	9,154,028	(625,350)	(6.4%)
<b>Funding Types</b>						
General	10,406,646	9,779,378	9,154,028	9,154,028	(625,350)	(6.4%)
Federal	0	0	0	0	-	0.0%
Other	0	0	0	0	-	0.0%
<b>Total</b>	<b>10,406,646</b>	<b>9,779,378</b>	<b>9,154,028</b>	<b>9,154,028</b>	<b>(625,350)</b>	<b>(6.4%)</b>

### ➤ Sale/Leaseback History:

- In the 1980's, the Legislature sold most state-owned buildings and leased them back for state use. This was a revenue generating initiative for the state to use the investment income on the money received from the sale of the buildings. Part of the investment income was to be used to pay for the leases, and the other portion would be realized as net earnings.
- The state sold its office buildings valued at approximately \$200,000,000 to the South Dakota Building Authority.
- To pay for the buildings, the South Dakota Building Authority sold bonds. Bond payments by SDBA to the bondholders would be made out of payments by the state for the use of the same buildings.
- The state then took the \$200,000,000 and purchased an annuity contract for \$183,500,000 on the lives of a pool of retired state employees in the SDRS. The revenue stream to the state from the annuity contract would be used to make payments to the SDBA. Of the remaining \$16.5 million, \$14.5 million was used to fund one-time capital projects, and \$2 million was held in reserve to protect against the pool of retired employees dying faster than actuarial projections.
- At the end of the 30-year contract (2016), the state will resume ownership of the buildings from the South Dakota Building Authority.
- The Building Authority provides for the payment of the original sale/leaseback (Foss, Anderson, State Library, Commerce Building, Becker-Hansen, and Soldiers' and Sailors' War Memorial buildings). The original closing date was December 18, 1986, and the final payment will be December 1, 2016. The funds budgeted are receipted and paid out the same day. There is no impact to the general fund. The activity was refinanced in 1996 to take advantage of a more favorable interest rate. The final payment remains December 1, 2016.
- The reduction is based on the payment schedule provided by the South Dakota Building Authority.
- This is only a portion of the sale/leaseback initiative; the remaining portion is reported in the Bureau of Administration's budget.

## Computer Services and Development

The mission of this division is to provide funding for the development and maintenance of computer systems in various state agencies.

Item	Actual FY06	Budgeted FY07	Agency Req. FY08	Gov Rec. FY08	Inc/Dec FY08	% Change From FY07
Contractual Services	0	1,717,364	1,717,364	1,717,364	-	0.0%
<b>Funding Types</b>						
General	0	0	0	0	-	0.0%
Federal	0	0	0	0	-	0.0%
Other	0	1,717,364	1,717,364	1,717,364	-	0.0%
<b>Total</b>	-	<b>1,717,364</b>	<b>1,717,364</b>	<b>1,717,364</b>	-	<b>0.0%</b>

- This pool of authority was created to provide agencies with “emergency” spending authority in cases where the Bureau of Information and Technology (BIT) had time and resources to do special projects for any state agency. This discourages *all* of the agencies from requesting additional authority, anticipating BIT had time available to complete their projects.
- In FY03, the transfer of authority was to BIT and not to an agency.
- The fund previously received \$500,000 from the general fund. That amount was reduced to \$400,000 in the FY02 budget and then eliminated entirely in the FY03 budget and thereafter.
- No transfers were made in FY04, FY05, nor in FY06. The entire amount reverted.

### History of Transfers from the Computer Services Pool in BFM

Fiscal Year	Budgeted	Transferred	Remainder
FY1998 - General Funds	\$ 500,000	\$ 500,000	\$ -
FY1998 - Other Fund Authority	\$ 1,717,364	\$ 1,700,000	\$ 17,364
FY1999 - General Funds	500,000	500,000	-
FY1999 - Other Fund Authority	\$ 1,717,364	\$ 1,023,000	\$ 694,364
FY2000 - General Funds	500,000	500,000	-
FY2000 - Other Fund Authority	\$ 1,717,364	\$ 780,000	\$ 937,364
FY2001 - General Funds	500,000	500,000	-
FY2001 - Other Fund Authority	\$ 1,717,364	\$ 1,572,724	\$ 144,640
FY2002 - General Funds	400,000	400,000	-
FY2002 - Other Fund Authority	\$ 1,717,364	\$ 785,445	\$ 931,919
FY2003 - Other Fund Authority	\$ 1,717,364	\$ 1,717,364	-
FY2004 - Other Fund Authority	\$ 1,717,364	-	\$ 1,717,364
FY2005 - Other Fund Authority	\$ 1,717,364	-	\$ 1,717,364
FY2006 - Other Fund Authority	\$ 1,717,364	-	\$ 1,717,364

## **Other Departmental Issues**

### **A. Interim Appropriation Actions**

No interim appropriation actions were taken. The agency transferred \$80,800 in FY06, and \$100,300 in FY05 from the Personal Services budget to the Operating Expense budget during the respective interims.

### **B. Audit Findings**

#### **FINDING NO. 01100200501**

An internal control deficiency was noted with respect to the monthly statewide bank reconciliation process. This is the second consecutive audit to contain this finding.

#### **Analysis:**

United States General Accounting Office, *Government Auditing Standards, 2003 Revision*, states:

“Internal control serves as the first line of defense in safeguarding assets and preventing and detecting errors, fraud, and violations of laws, regulations, and provisions of contracts and grant agreements.

The June 2005 reconciliation of the State's bank account was not completed until seven months after year-end.

As a result, the State experienced increased exposure to accounting errors or irregularities not being detected in a timely manner.”

#### **Recommendation:**

We recommend the monthly statewide bank reconciliation be completed in a timely manner to assure all cash transactions are properly recorded on the State's accounting system.

#### **Agency's Response:**

Additional BFM resources have been allocated to the bank reconciliation process to ensure the proper and timely completion of the monthly statewide bank reconciliation. In May 2005, one full-time staff member was also hired regarding the bank reconciliation. The newly hired staff member has the necessary professional credentials and applicable prior work experience to ensure the proper and timely completion of the monthly statewide bank reconciliation.

**C. FY06 Reversions**

	<b>General</b>	<b>BOA Other</b>	<b>Central Acct. Other</b>	<b>Total</b>
<b>BFM</b>				
Personal Services	\$ 334	\$ 42,163	\$ 2,407	\$ <b>44,904</b>
Operating Expenditures	\$ -	\$ 17,627	\$ 559,655	\$ <b>577,282</b>
Total	<u>\$ 334</u>	<u>\$ 59,790</u>	<u>\$ 562,062</u>	<u>\$ <b>622,186</b></u>
Reverted % of Total Fund Budget	0.0%	13.1%	19.1%	<b>14.8%</b>
 <b>Computer Services and Development</b>				
Contractual Services			\$ 1,717,364	\$ <b>1,717,364</b>
Reverted % of Total				<b>100.0%</b>